

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: CalSTRS Service Retirement Process Preliminary Survey ITEM NUMBER: 9

ATTACHMENT(S): 2

ACTION: DATE OF MEETING: November 7, 2002

INFORMATION: X PRESENTER(S): Way Lee

The Office of Audits completed a preliminary survey of the CalSTRS Service Retirement process, which is administered by the Client Benefits and Services Branch and supported by the Information and Financial Services Branch. We reviewed activities and processes performed by CalSTRS staff related to the six month period from June 1, 2001 to November 30, 2001 as well as certain management reports through July 31, 2002.

The primary goal of the Service Retirement Process is to provide timely and accurate monthly retirement benefits to nearly 10,000 members who apply for service retirement each year. Accurate allowances depend upon the:

- Timely receipt of complete and accurate information from each employer.
- Timely receipt of complete and accurate information from each member.
- Timely internal processing by CalSTRS staff.
- START computer system.

A survey report documents the auditor's understanding of a process. We presented to management a comprehensive report of the Service Retirement Process Objectives, Risks, and Controls. The preliminary report identified 21 objectives and related risks. Controls are any actions taken by management to enhance the likelihood that established objectives and goals will be achieved. The report also provided our preliminary observations of management's controls and good-faith recommendations for various process improvements, based on our observations that management is considering without the need to wait for formal audit findings and more specific corrective actions.

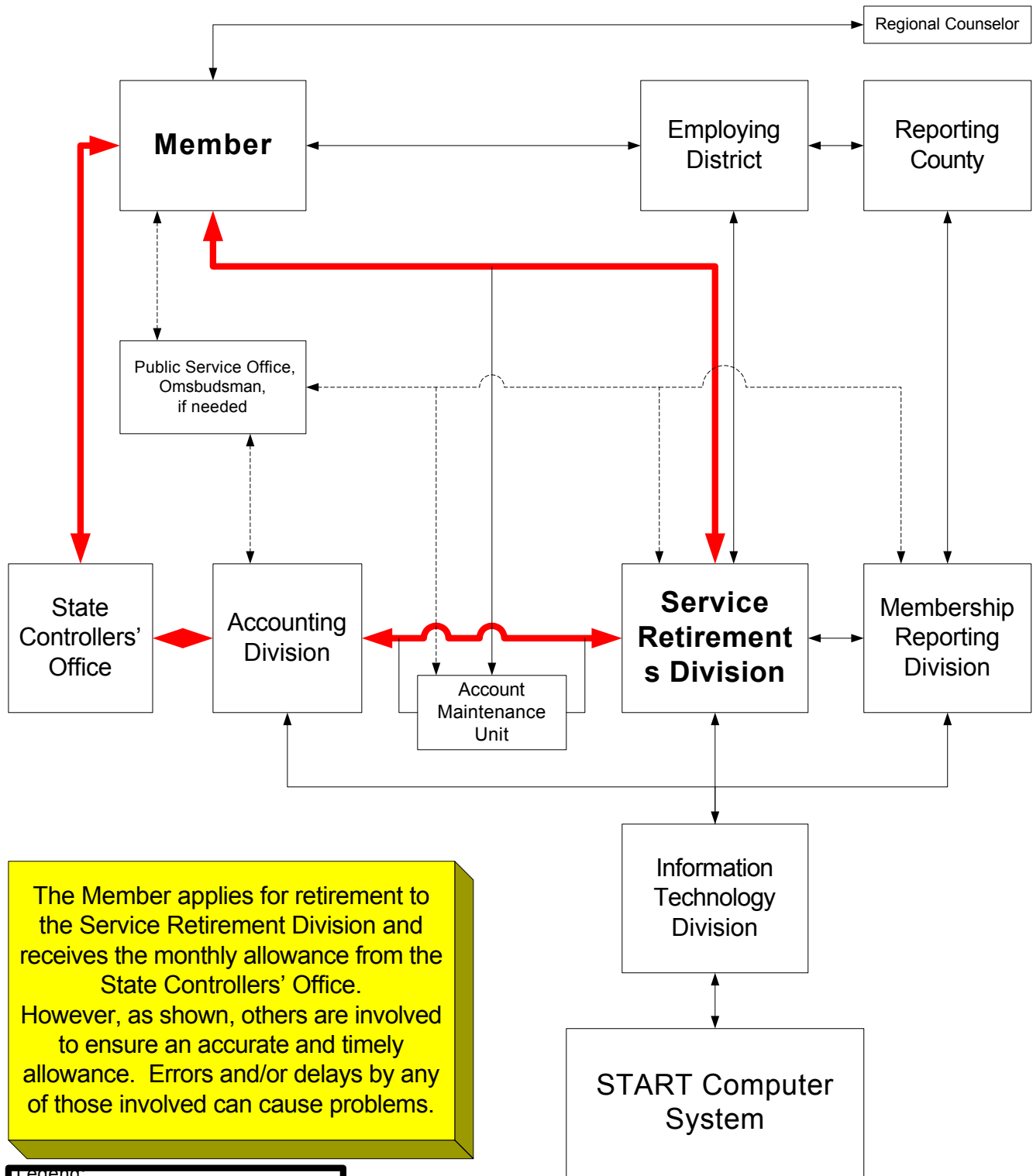
Attachment 1 and 2 are high level flow charts that show who is involved in the Service Retirement Process and where the primary controls need to be strong in order to achieve the best assurance that allowances are accurate and supported by electronic data and member provided information in the least amount of time.

A preliminary survey provides a basis on which the nature and extent of subsequent audits can be established. This Preliminary Survey identified several future audit assignments. Separate audit assignments should be scheduled to assess:

- Service Retirement Allowances: We will audit the allowances for members who retired in the 2001-02 school year. The audit will begin this month.
- Additional service credits and billings
- Account Maintenance Process
- Benefit Adjustments
- Partial Lump Sum Payments
- START Computer Programming
- The cost-benefit of the more stringent START design that uses up to 94 edits of employer reported data compared to the 33 edits in the prior computer system. Data that fails an edit is an exception. An exception may or may not represent a reporting error that could affect future retirement benefits.
- Although the Allowance Roll Process is not part of establishing an accurate allowance in a timely manner for the nearly 10,000 members who retire annually, it should be audited on a periodic basis to ensure appropriate payments are made to the 150,000 plus members retired for service.

DB Service Retirement - Who Is Involved

10/23/2002



The Member applies for retirement to the Service Retirement Division and receives the monthly allowance from the State Controllers' Office. However, as shown, others are involved to ensure an accurate and timely allowance. Errors and/or delays by any of those involved can cause problems.

Legend:
 Red Line: Primary Relationship
 Black Line: Supporting Relationships
 Dash Line: Problem Resolution

DB Service Retirement - Primary Control Points

10/23/2002

A member works for one or more employers during his or her career.

Each employer is required by law to report accurate creditable service and compensation and retirement contributions on a monthly basis to CalSTRS through the County Office of Education.

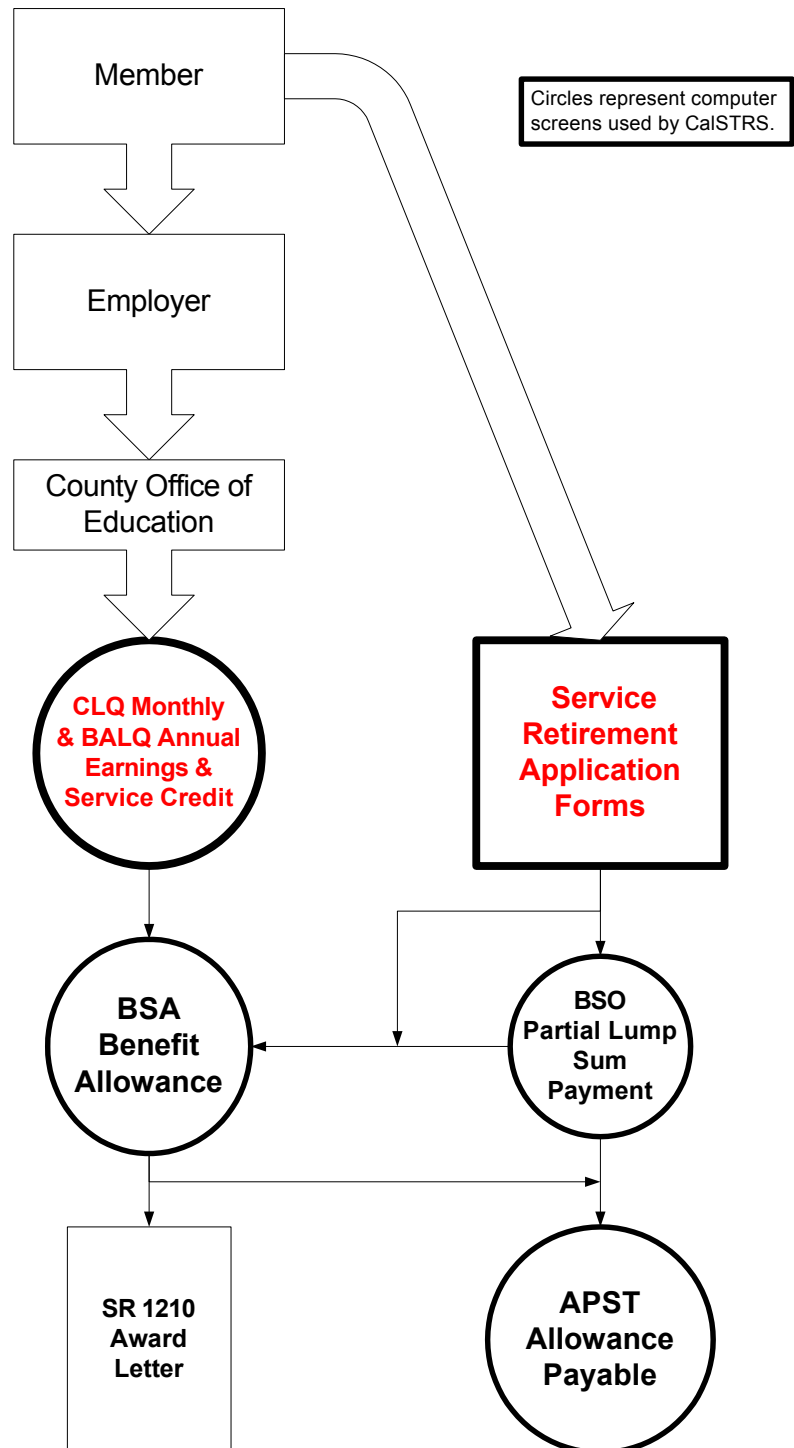
These monthly reports are accumulated and stored for use when the member retires. Reporting exceptions may affect the member's lifetime retirement benefit. Exceptions should be detected and corrected as soon as possible.

When a member decides to retire, he or she submits a package of forms to CalSTRS.

Member provided information must also be correct and complete.

Member information, together with the accumulated service credit and average final compensation, is used to determine the member's retirement allowance.

Uncorrected exceptions in the member's service credit, final compensation, or retirement information may cause the lifetime retirement benefit to be over or understated.



3 PRIMARY CONTROL POINTS:

1. Accurate monthly reporting throughout the member's career.
2. Reporting exceptions corrected as soon as possible.
3. Complete & accurate member information at time of retirement application.